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TAGS: ECON EFIN ETRD EINV ECIN PGOV PREL CI

SUBJECT: CHILE: RECENT ECONOMIC HIGHLIGHTS

REFS: A. 08 SANTIAGO 1127 AND PREVIOUS
¶B. SANTIAGO 23

¶1. SUMMARY: This continues a series of updates on major developments in Chile's economy since the acceleration of global financial turmoil. Between December 22, 2008, and January 9, 2009, copper prices recovered from their lows in early December 2008, the Peso rose modestly against the Dollar, and the stock market was up. For the whole of 2008, the average monthly copper price fell 58%, the Peso lost more than 22% of its value against the Dollar, and the IPSA stock market index also lost 22% of its value. Economic activity grew by only 0.1% in November 2008. Inflation fell to 7.1%. The Central Bank cut the interest rate to 7.25%. The unemployment rate remained at 7.5%. The GOC announced a major new economic stimulus package (see REF B). END SUMMARY.

Copper Prices Recover From Four Year Lows

¶2. On the London Metals Exchange, copper closed at $1.48/pound on January 9, up almost 16% from its close on December 19. Copper closed at $1.32/pound on December 31. The average monthly price of copper fell 58% between January and December of 2008. The yearly average price of copper in 2008 was $3.16/pound, compared to $3.23/pound in 2007 (a loss of only 2%, due to historic highs in July 2008).

Chilean Peso Gains Ground Against Dollar

¶3. On January 9, the exchange rate closed at approximately 617 Chilean Pesos to 1 U.S. Dollar (an appreciation of 3% from the close on December 19). On December 30 (the last day of trading for the year in Chile), the exchange rate closed at almost 636 Chilean Pesos to 1 U.S. Dollar. The Peso lost more than 22% of its value against the Dollar in 2008.

¶4. In 2008, the Peso experienced its greatest annual depreciation against the Dollar since the elimination of Chile's exchange rate band system in 1999. The Dollar accumulated a total annual appreciation of 138.6 Chilean Pesos. Experts said the principal causes were the marked drop in copper prices and the shortage in liquidity caused by the international financial crisis.

Stock Market Closes Up

¶5. The IPSA closed at 2504.06 points on January 9, up almost 7% on the close of December 19. On December 30 (the last day of trading

for the year in Chile), the IPSA closed at 2376.42, down more than 22% for the year. The total market value of firms listed on the index was $148 billion at the end of 2007 but fell to $89 billion at the end of 2008, a contraction of 40%.

Economic Activity Slows

¶6. The Central Bank reported January 5 that the index of economic activity (Imacec) slowed to grow only 0.1% in November 2008 when compared with the same month in 2007. When compared with October 2008, seasonally-adjusted economic activity actually fell by 0.7%. The slow-down in activity was accredited to the poor performance of mining, manufacturing, and trade. The National Statistics Institute (INE) reported industrial production fell 5.7% in November 2008 as did mining production. Economic analysts forecast Chile's annual GDP growth would likely be between 3.7 and 3.8%.

Large Drop in Inflation

¶7. On January 6, the INE reported the Consumer Price Index decreased in December by 1.2% compared with November (the sharpest one-month drop since 1966). The CPI grew at 7.1% for December 2008 compared with the same month in 2007 (it was 8.9% in November). The decrease was more than expected and credited to falling fuel, transport, and housing prices.

Central Bank Cuts Interest Rate

¶8. On January 8, as a result of slowing economic growth and falling inflation, the Central Bank decided to cut the interest rate to 7.25% (from 8.25%). This is the single largest cut in a decade.

Unemployment Rate Does Not Change

¶9. The INE reported the unemployment rate remained at 7.5% for September-November 2008. This is lower (by two percentage points) than the same period in 2007.

GOC Proposes Economic Stimulus Package

¶10. On January 5, President Bachelet announced a $4 billion economic stimulus plan designed to create 100,000 jobs and maintain a GDP growth rate of 2-3% in 2009 (see REF B). The plan calls for increased public infrastructure spending, temporary tax cuts for businesses, direct payments to low-income families, and other incentives.

¶11. The stimulus package, which represents 2.8% of GDP, will be financed from one of Chile's sovereign wealth funds (the Economic and Social Stabilization Fund) as well as from new public debt. It will likely result in a fiscal deficit of 2.9% of GDP in 2009. The plan comes in response to weakening economic conditions in Chile, including slowing GDP growth (see para 6).
SIMONS